

CITY OF BUFFALO CENTER, IOWA
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013

- Prepared By -

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CITY OF BUFFALO CENTER, IOWA

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CITY OF BUFFALO CENTER, IOWA

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Troy Armstrong	Mayor	January 2014
Pete Paulson	Mayor Pro tem	January 2014
Charles Silber	Council Member	January 2014
Bill Jensvold	Council Member	January 2016
Marty Schaefer	Council Member	January 2016
Don West	Council Member	January 2016
Debra Jensvold	Clerk	January 2014
Amy Schaefer	Treasurer	January 2014
Don Hemphill	Attorney	January 2014



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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

I have audited the accompanying financial statements of the government activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Basis for Qualified Opinion

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution of the total fund balance at July 1, 2012.

Qualified Opinions

In my opinion, except for the possible effects of the matter discussed in the "Basis for Qualified Opinion" paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Buffalo Center as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Buffalo Center's basic financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In my opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 23 through 25 has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, I have also issued my report dated December 27, 2013 on my consideration of the City of Buffalo Center's internal control over financial reporting and on my tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City of Buffalo Center's internal control over financial reporting and compliance.



Charles City, Iowa
December 27, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Buffalo Center provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2013. I encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

The City's total cash basis net position increased less than 1%, or approximately \$1,089, from June 30, 2012 to June 30, 2013. Of this amount, the net position of the governmental activities increased approximately \$5,354 and the cash basis net position of the business type activities decreased by approximately \$4,265.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Other Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.

Business Type Activities include the waterworks and the sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 3) the Debt Service Fund and 4) the Capital Projects Funds. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statement for governmental funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the water, sewer and garbage funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from \$297,707 to \$303,061. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities
(Expressed in Thousands)

	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service	\$ 68
Operating grants, contributions and restricted interest	143
General receipts:	
Property tax	296
Local option sales tax	86
Unrestricted interest on investments	1
Note proceeds	167
Anticipatory warrants redeemed	(166)
Other general receipts	106
Total receipts	<u>\$ 701</u>
Disbursements:	
Public safety	\$ 217
Public works	131
Culture and recreation	115
General government	93
Debt service	124
Capital projects	16
Total disbursements	<u>\$ 696</u>
Change in cash basis net position	\$ 5
Cash basis net position beginning of year	<u>298</u>
Cash basis net position end of year	<u><u>\$ 303</u></u>

Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)

	Year ended June 30, 2013
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 111
Sewer	78
Garbage	84
General receipts:	
Unrestricted interest on investments	1
Total receipts	<u>\$ 274</u>
Disbursements:	
Water	\$ 113
Sewer	85
Garbage	80
Total disbursements	<u>\$ 278</u>
Change in cash basis net position	\$ (4)
Cash basis net position beginning of year	<u>274</u>
Cash basis net position end of year	<u><u>\$ 270</u></u>

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Buffalo Center completed the year, its governmental funds reported a combined fund balance of \$303,061, an increase of \$5,354 from last year's total of \$297,707. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

The General Fund cash balance increased \$113,002 from the prior year to \$9,553. This increase was due to transfers from the Special Revenue, Local Option Sales Tax Fund and Capital Project, Street Project Fund.

The Special Revenue, Road Use Tax Fund cash balance increased by \$15,602 to \$121,822 during the fiscal year. This increase was attributable to decreased operating disbursements.

The Special Revenue, Local Option Sales Tax Fund cash balance decreased by \$119,796 to \$105,829. This is due to a transfer to the general fund in excess of current year receipts. The balance will be used on future projects.

The Debt Service, General Obligation Notes Fund cash balance decreased \$7,413 to \$58,903, due to debt service payments in excess of current year receipts.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The Enterprise, Water Utility Fund cash balance decreased by \$1,846 to \$109,772, due primarily to an increase in operating expenses.

The Enterprise, Sewer Utility Fund cash balance decreased by \$6,502 to \$71,296 due primarily to increased operating receipts.

The Enterprise, Garbage Fund cash balance increased by \$4,083 to \$88,454 due to increased operating receipts.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 8, 2013 and resulted in an increase in operating disbursements of \$208,500. This increase in disbursements will be paid with existing funds.

The City exceeded the amount budgeted in the public safety function for the year ended June 30, 2013.

DEBT ADMINISTRATION

At June 30, 2013, the City had approximately \$500,000 in notes outstanding, compared to approximately \$600,271 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)

	June 30,	
	2013	2012
General obligation and anticipation notes	<u>\$ 500</u>	<u>\$ 600</u>

Debt decreased as a result of scheduled principal payments. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$500,000 is significantly below its constitutional debt limit of \$1,354,280.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Buffalo Center's elected and appointed officials and citizens considered many factors when setting the fiscal year 2014 budget, tax rates and fees charged for various City activities. One of those factors is the economy. Another concern evolves around increased energy costs for the ensuing year and beyond. The increased costs have added as much as thirty percent to segments of the budget. Holding the budget in line becomes challenging while attempting to maintain and improve City services.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Deb Jensvold, City Clerk, P.O. Box 430, Buffalo Center, Iowa 54024.

Basic Financial Statements

CITY OF BUFFALO CENTER, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

FUNCTIONS/PROGRAMS:	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 217,309	\$ 5,705	\$ 13,889	\$ -
Public works	130,694	48,059	86,664	-
Culture and recreation	114,419	14,930	42,676	-
General government	93,375	-	-	-
Debt service	124,099	-	-	-
Capital projects	<u>16,479</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>\$ 696,375</u>	<u>\$ 68,694</u>	<u>\$ 143,229</u>	<u>\$ -</u>
Business type activities:				
Water	\$ 113,154	\$ 111,262	\$ -	\$ -
Sewer	84,756	78,207	-	-
Garbage	<u>79,842</u>	<u>83,925</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>\$ 277,752</u>	<u>\$ 273,394</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 974,127</u>	<u>\$ 342,088</u>	<u>\$ 143,229</u>	<u>\$ -</u>

(Continued)

**Net (Disbursements) Receipts and
Changes in Cash Basis Net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ (197,715)	\$ -	\$ (197,715)
4,029	-	4,029
(56,813)	-	(56,813)
(93,375)	-	(93,375)
(124,099)	-	(124,099)
<u>(16,479)</u>	<u>-</u>	<u>(16,479)</u>
 \$ (484,452)	 \$ -	 \$ (484,452)
 \$ -	 \$ (1,892)	 \$ (1,892)
-	(6,549)	(6,549)
<u>-</u>	<u>4,083</u>	<u>4,083</u>
 \$ -	 \$ (4,358)	 \$ (4,358)
<u>\$ (484,452)</u>	<u>\$ (4,358)</u>	<u>\$ (488,810)</u>

CITY OF BUFFALO CENTER, IOWA
CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

General Receipts:

- Property and other city tax levied for:
 - General purposes
 - Debt service
- Local option sales tax
- Unrestricted interest on investments
- Anticipatory warrants redeemed
- Note proceeds
- Miscellaneous

Total general receipts

Change in cash basis net position

Cash basis net position beginning of year

Cash basis net position end of year

Cash Basis Net Position

- Restricted:
 - Expendable:
 - Streets
 - Debt service
- Unrestricted

Total cash basis net position

See Notes to Financial Statements.

**Net (Disbursements) Receipts and
Changes in Cash Basis net Position**

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
\$ 191,359	\$ -	\$ 191,359
104,940	-	104,940
86,128	-	86,128
683	93	776
(166,271)	-	(166,271)
167,000	-	167,000
105,967	-	105,967
<u>\$ 489,806</u>	<u>\$ 93</u>	<u>\$ 489,899</u>
\$ 5,354	\$ (4,265)	\$ 1,089
<u>297,707</u>	<u>273,787</u>	<u>571,494</u>
<u>\$ 303,061</u>	<u>\$ 269,522</u>	<u>\$ 572,583</u>
\$ 121,822	\$ -	\$ 121,822
58,903	-	58,903
<u>122,336</u>	<u>269,522</u>	<u>391,858</u>
<u>\$ 303,061</u>	<u>\$ 269,522</u>	<u>\$ 572,583</u>

CITY OF BUFFALO CENTER, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

		Special Revenue	
	General	Road Use	Local Option
		Tax	Sales Tax
RECEIPTS:			
Property tax	\$ 173,241	\$ -	\$ -
Other city tax	-	-	86,128
Licenses and permits	1,843	-	-
Use of money and property	607	-	76
Intergovernmental	46,564	86,664	-
Charges for service	26,398	-	-
Special assessments	-	-	-
Miscellaneous	114,424	-	-
Total receipts	<u>\$ 363,077</u>	<u>\$ 86,664</u>	<u>\$ 86,204</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 210,345	\$ -	\$ -
Public works	52,770	71,062	-
Culture and recreation	108,971	-	-
General government	91,989	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>\$ 464,075</u>	<u>\$ 71,062</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (100,998)</u>	<u>\$ 15,602</u>	<u>\$ 86,204</u>
Other financing sources (uses):			
Anticipatory warrants redeemed	\$ -	\$ -	\$ -
Note proceeds	-	-	-
Operating transfers in	220,000	-	-
Operating transfers out	(6,000)	-	(206,000)
Total other financing sources (uses)	<u>\$ 214,000</u>	<u>\$ -</u>	<u>\$ (206,000)</u>
Change in cash balances	\$ 113,002	\$ 15,602	\$ (119,796)
Cash balances beginning of year	<u>(103,449)</u>	<u>106,220</u>	<u>225,625</u>
Cash balances end of year	<u>\$ 9,553</u>	<u>\$ 121,822</u>	<u>\$ 105,829</u>
Cash Basis Fund Balances:			
Restricted for:			
Streets	\$ -	\$ 121,822	\$ -
Debt Service	-	-	-
Committed for streets	-	-	-
Assigned for various	145,928	-	105,829
Unassigned	(136,375)	-	-
Total cash basis fund balances	<u>\$ 9,553</u>	<u>\$ 121,822</u>	<u>\$ 105,829</u>

See Notes to Financial Statements.

<u>Debt Service General Obligation Notes</u>	<u>Nonmajor</u>	<u>Total</u>
\$ 104,940	\$ 18,118	\$ 296,299
-	-	86,128
-	-	1,843
-	-	683
-	-	133,228
-	-	26,398
-	36,291	36,291
5,706	-	120,130
<u>\$ 110,646</u>	<u>\$ 54,409</u>	<u>\$ 701,000</u>
\$ -	\$ 6,964	\$ 217,309
-	6,862	130,694
-	5,448	114,419
-	1,386	93,375
118,059	6,040	124,099
-	16,479	16,479
<u>\$ 118,059</u>	<u>\$ 43,179</u>	<u>\$ 696,375</u>
<u>\$ (7,413)</u>	<u>\$ 11,230</u>	<u>\$ 4,625</u>
\$ -	\$ (166,271)	\$ (166,271)
-	167,000	167,000
-	12,000	232,000
-	(20,000)	(232,000)
<u>\$ -</u>	<u>\$ (7,271)</u>	<u>\$ 729</u>
\$ (7,413)	\$ 3,959	\$ 5,354
<u>66,316</u>	<u>2,995</u>	<u>297,707</u>
<u>\$ 58,903</u>	<u>\$ 6,954</u>	<u>\$ 303,061</u>
\$ -	\$ -	\$ 121,822
58,903	-	58,903
-	9,232	9,232
-	-	251,757
-	(2,278)	(138,653)
<u>\$ 58,903</u>	<u>\$ 6,954</u>	<u>\$ 303,061</u>

CITY OF BUFFALO CENTER, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	Enterprise			
	Water Utility	Sewer Utility	Garbage	Total
Operating receipts:				
Charges for service	\$ 111,262	\$ 78,207	\$ 83,925	\$ 273,394
Operating disbursements:				
Business type activities	<u>113,154</u>	<u>84,756</u>	<u>79,842</u>	<u>277,752</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	\$ (1,892)	\$ (6,549)	\$ 4,083	\$ (4,358)
Non-operating receipts:				
Interest on investments	<u>46</u>	<u>47</u>	<u>-</u>	<u>93</u>
Change in cash balances	\$ (1,846)	\$ (6,502)	\$ 4,083	\$ (4,265)
Cash balances beginning of year	<u>111,618</u>	<u>77,798</u>	<u>84,371</u>	<u>273,787</u>
Cash balances end of year	<u>\$ 109,772</u>	<u>\$ 71,296</u>	<u>\$ 88,454</u>	<u>\$ 269,522</u>
Cash Basis Fund Balances:				
Unrestricted	<u>\$ 109,772</u>	<u>\$ 71,296</u>	<u>\$ 88,454</u>	<u>\$ 269,522</u>

See Notes to Financial Statements.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies

The City of Buffalo Center is a political subdivision of the State of Iowa located in Winnebago County. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Buffalo Center has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City. The City has no component units which meet the Governmental Accounting Standards Board Criteria.

Jointly Governed Organizations - The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the Winnebago County Assessor's Conference Board and North Iowa Area Council of Governments.

B. Basis of Presentation

Government-wide Financial Statements - The Cash Basis Statement of Activities and Net Position (previously referred to as net asstes) reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in two categories:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often have constraints on cash balances imposed by management which can be removed or modified.

The Cash Basis Statement of Activities and Net Position demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for the Road Use Tax Allocation from the State of Iowa to be used for road construction and maintenance.

The Local Option Sales Tax Fund is used to account for local option sales tax receipts and disbursements.

The Debt Service, General Obligation Notes Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The City reports the following major proprietary funds:

The Enterprise, Water Utility Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Utility Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Enterprise, Garbage Fund accounts for the operation of the City's garbage collection.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(1) Summary of Significant Accounting Policies - continued

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned - Amounts the City Council intends to use for specific purposes.

Unassigned - All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the public safety function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2013 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(2) Cash and Pooled Investments - continued

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) Notes Payable

Annual debt service requirements to maturity for general obligations notes are as follows:

Year Ending June 30,	General Obligation Notes	
	Principal	Interest
2014	\$ 65,000	\$ 17,239
2015	115,000	22,745
2016	104,000	17,731
2017	75,000	12,810
2018	50,000	9,808
2019-2023	91,000	8,340
Total	<u>\$500,000</u>	<u>\$ 88,673</u>

The resolutions providing for the issuance of the general obligation notes include the provisions that at the option of the City, notes due are subject to redemption and prepayment in inverse numerical order at a price of par plus accrued interest to call date, by giving proper notice.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa 50306-9117.

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2013 was \$19,825, equal to the required contribution for the year.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, comp time and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation, personal time and sick leave payable to employees at June 30, 2013, primarily relating to the General Fund, is \$6,124. This liability has been computed based on rates of pay in effect at June 30, 2013.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Local Option Sales Tax	\$ 200,000
	Capital Project:	
	Street Project	20,000
		<u>\$ 220,000</u>
Capital Projects:		
Street Project	General	\$ 6,000
	Special Revenue:	
	Local Option Sales Tax	6,000
		<u>\$ 12,000</u>
	Total	<u>\$ 232,000</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Related Party Transactions

The City had business transactions between the City and City officials totaling \$4,017 during the year ended June 30, 2013.

(8) Risk Management

The City is a member of the Iowa Communities Assurance Pool, as allowed by Chapter 670.7 of the Code of Iowa. The Iowa Communities Assurance Pool (Pool) is a local government risk-sharing pool whose 679 members include various governmental entities throughout the State of Iowa. The Pool was formed in August 1986 for the purpose of managing and funding third-party liability claims against its members. The Pool provides coverage and protection in the following categories: general liability, automobile liability, automobile physical damage, public officials liability, police professional liability, property, inland marine and boiler/machinery. There have been no reductions in insurance coverage from prior years.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(8) Risk Management - continued

Each member's annual casualty contributions to the Pool fund current operations and provide capital. Annual operating contributions are those amounts necessary to fund, on a cash basis, the Pool's general and administrative expenses, claims, claims expenses and reinsurance expenses due and payable in the current year, plus all or any portion of any deficiency in capital. Capital contributions are made during the first six years of membership and are maintained at a level determined by the Board not to exceed 300% of total current members' basis rates or to comply with the requirements of any applicable regulatory authority having jurisdiction over the Pool.

The Pool also provides property coverage. Members who elect such coverage make annual operating contributions which are necessary to fund, on a cash basis, the Pool's general and administrative expenses and reinsurance premiums, all of which are due and payable in the current year, plus all or any portion of any deficiency in capital. Any year-end operating surplus is transferred to capital. Deficiencies in operations are offset by transfers from capital and, if insufficient, by the subsequent year's member contributions.

The City's property and casualty contributions to the risk pool are recorded as disbursements from its operating funds at the time of payment to the risk pool. The City's contributions to the Pool for the year ended June 30, 2013 were \$33,064.

The Pool uses reinsurance and excess risk-sharing agreements to reduce its exposure to large losses. The Pool retains general, automobile, police professional, and public officials' liability risks up to \$350,000 per claim. Claims exceeding \$350,000 are reinsured in an amount not to exceed \$2,650,000 per claim. For members requiring specific coverage from \$3,000,000 to \$16,000,000, such excess coverage is also reinsured. Property and automobile physical damage risks are retained by the Pool up to \$250,000 each occurrence, each location, with excess coverage reinsured by Lexington Insurance Company.

The Pool's intergovernmental contract with its members provides that in the event a casualty claim or series of claims exceeds the amount of risk-sharing protection provided by the member's risk-sharing certificate, or in the event a series of casualty claims exhausts total members' equity plus any reinsurance and any excess risk-sharing recoveries, then payment of such claims shall be the obligation of the respective individual member. As of June 30, 2013, settled claims have not exceeded the risk pool or reinsurance coverage since the Pool's inception.

Members agree to continue membership in the Pool for a period of not less than one full year. After such period, a member who has given 60 days' prior written notice may withdraw from the Pool. Upon withdrawal, payments for all casualty claims and claims expenses become the sole responsibility of the withdrawing member, regardless of whether a claim was incurred or reported prior to the member's withdrawal. Members withdrawing within the first six years of membership may receive a partial refund of their casualty capital contributions. If a member withdraws after the sixth year, the member is refunded 100% of its casualty capital contributions. However, the refund is reduced by the amount of capital distributions previously received by the withdrawing member and an amount equal to the annual casualty operating contribution which the withdrawing member would have made for the one-year period following withdrawal.

CITY OF BUFFALO CENTER, IOWA
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013

(8) **Risk Management** - continued

The City also carries commercial insurance purchased from other insurers for coverage associated with public employee dishonesty coverage and workers compensation coverage. The City assumes liability for any deductibles, and claims in excess of coverage limitations. Settled claims resulting from these risks have not exceeded commercial insurance coverage during the past fiscal year.

(9) **Deficit Balance**

The Special Revenue, Employee Benefits fund had a deficit balance of \$2,278 at June 30, 2013. The deficit will be eliminated upon collection of property taxes.

(10) **Subsequent Events**

On July 10, 2013 the City approved the Library roof repair in the amount of \$5,575 and the Heritage Center floor work in the amount of \$2,735.

Other Information

CITY OF BUFFALO CENTER, IOWA
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS,
AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required To Be Budgeted
RECEIPTS:			
Property tax	\$ 296,299	\$ -	\$ -
Other city tax	86,128	-	-
Licenses & permits	1,843	-	-
Use of money and property	683	93	-
Intergovernmental	133,228	-	-
Charges for service	26,398	273,394	-
Special assessments	36,291	-	-
Miscellaneous	120,130	-	-
Total receipts	<u>\$ 701,000</u>	<u>\$ 273,487</u>	<u>\$ -</u>
DISBURSEMENTS:			
Public safety	\$ 217,309	\$ -	\$ -
Public works	130,694	-	-
Culture and recreation	114,419	-	-
General government	93,375	-	-
Debt service	124,099	-	-
Capital projects	16,479	-	-
Business type activities	-	277,752	-
Total disbursements	<u>\$ 696,375</u>	<u>\$ 277,752</u>	<u>\$ -</u>
Excess (deficiency) of receipts over (under) disbursements	\$ 4,625	\$ (4,265)	\$ -
Other financing sources, net	<u>729</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 5,354	\$ (4,265)	\$ -
Balances beginning of year	<u>297,707</u>	<u>273,787</u>	<u>-</u>
Balances end of year	<u>\$ 303,061</u>	<u>\$ 269,522</u>	<u>\$ -</u>

See Accompanying Independent Auditor's Report.

<u>Total</u>	<u>Budgeted Amounts</u>		<u>Final to Total Variance</u>
	<u>Original</u>	<u>Final</u>	
\$ 296,299	\$ 276,245	\$ 276,245	\$ 20,054
86,128	78,000	78,000	8,128
1,843	1,595	1,595	248
776	2,000	2,000	(1,224)
133,228	103,200	103,200	30,028
299,792	254,700	254,700	45,092
36,291	-	35,000	1,291
120,130	85,000	112,000	8,130
<u>\$ 974,487</u>	<u>\$ 800,740</u>	<u>\$ 862,740</u>	<u>\$ 111,747</u>
\$ 217,309	\$ 96,020	\$ 139,020	\$ (78,289)
130,694	119,300	139,300	8,606
114,419	107,100	126,100	11,681
93,375	85,285	108,785	15,410
124,099	135,676	135,676	11,577
16,479	-	33,000	16,521
277,752	244,000	314,000	36,248
<u>\$ 974,127</u>	<u>\$ 787,381</u>	<u>\$ 995,881</u>	<u>\$ 21,754</u>
\$ 360	\$ 13,359	\$ (133,141)	\$ 133,501
<u>729</u>	<u>-</u>	<u>-</u>	<u>729</u>
\$ 1,089	\$ 13,359	\$ (133,141)	\$ 134,230
<u>571,494</u>	<u>481,495</u>	<u>481,495</u>	<u>89,999</u>
<u>\$ 572,583</u>	<u>\$ 494,854</u>	<u>\$ 348,354</u>	<u>\$ 224,229</u>

CITY OF BUFFALO CENTER, IOWA
NOTES TO OTHER INFORMATION - BUDGETARY REPORTING
JUNE 30, 2013

The budgetary comparison is presented in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted disbursements by \$208,500. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amount budgeted in the public safety function.

Supplementary Information

CITY OF BUFFALO CENTER, IOWA
 SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCES
 NONMAJOR GOVERNMENTAL FUNDS
 AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

	<u>Special Revenue Employee Benefits</u>	<u>Capital Projects Street Project</u>	<u>Total</u>
RECEIPTS:			
Property tax	\$ 18,118	\$ -	\$ 18,118
Special assessments	-	36,291	36,291
Total receipts	<u>\$ 18,118</u>	<u>\$ 36,291</u>	<u>\$ 54,409</u>
DISBURSEMENTS:			
Operating:			
Public safety	\$ 6,964	\$ -	\$ 6,964
Public works	6,862	-	6,862
Culture and recreation	5,448	-	5,448
General government	1,386	-	1,386
Debt service	-	6,040	6,040
Capital projects	-	16,479	16,479
Total disbursements	<u>\$ 20,660</u>	<u>\$ 22,519</u>	<u>\$ 43,179</u>
Excess (deficiency) of receipts over (under) disbursements	<u>\$ (2,542)</u>	<u>\$ 13,772</u>	<u>\$ 11,230</u>
Other financing sources (uses):			
Anticipatory warrants redeemed	\$ -	\$ (166,271)	\$ (166,271)
Note proceeds	-	167,000	167,000
Operating transfers in	-	12,000	12,000
Operating transfers out	-	(20,000)	(20,000)
Total other financing sources (uses):	<u>\$ -</u>	<u>\$ (7,271)</u>	<u>\$ (7,271)</u>
Change in cash balances	\$ (2,542)	\$ 6,501	\$ 3,959
Cash balances beginning of year	<u>264</u>	<u>2,731</u>	<u>2,995</u>
Cash balances end of year	<u>\$ (2,278)</u>	<u>\$ 9,232</u>	<u>\$ 6,954</u>
Cash Basis Fund Balances:			
Committed for streets	\$ -	\$ 9,232	\$ 9,232
Unassigned	<u>(2,278)</u>	<u>-</u>	<u>(2,278)</u>
Total cash basis fund balances	<u>\$ (2,278)</u>	<u>\$ 9,232</u>	<u>\$ 6,954</u>

See Accompanying Independent Auditor's Report.

CITY OF BUFFALO CENTER, IOWA
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General Obligation Notes:			
2005 Street Improvement	08-30-06	4.95%	\$ 210,000
2007 Street Improvement	04-24-08	5.00	270,000
Vehicle	06-30-11	3.00	166,000
Heritage Town Center	12-02-11	3.95	125,000
2010 Street Improvement	02-28-13	3.00	167,000
Total			
Anticipation Notes:			
Street Improvement	05-20-10	4.50	\$ 166,271
Total Indebtedness			

See Accompanying Independent Auditor's Report.

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 49,000	\$ -	\$ 23,000	\$ 26,000	\$ 2,425	\$ -
119,000	-	27,000	92,000	5,950	-
166,000	-	26,000	140,000	4,980	-
100,000	-	25,000	75,000	3,703	-
-	167,000	-	167,000	-	-
<u>\$ 434,000</u>	<u>\$ 167,000</u>	<u>\$ 101,000</u>	<u>\$ 500,000</u>	<u>\$ 17,058</u>	<u>\$ -</u>
\$ 166,271	\$ -	\$ 166,271	\$ -	\$ 6,041	\$ -
<u>\$ 600,271</u>	<u>\$ 167,000</u>	<u>\$ 267,271</u>	<u>\$ 500,000</u>	<u>\$ 23,099</u>	<u>\$ -</u>

CITY OF BUFFALO CENTER, IOWA
NOTE MATURITIES
JUNE 30, 2013

GENERAL OBLIGATION NOTES

Year Ending June 30,	2005 Street Improvement Issued August 30, 2006		2007 Street Improvement Issued April 24, 2008		Heritage Town Center Issued December 2, 2011	
	Interest		Interest		Interest	
	Rates	Amount	Rates	Amount	Rates	Amount
2014	4.95%	\$ -	5.00%	\$ -	3.95%	\$ 25,000
2015	4.95	20,000	5.00	27,000	3.95	25,000
2016	4.95	6,000	5.00	29,000	3.95	25,000
2017		-	5.00	30,000		-
2018		-	5.00	6,000		-
2019		-		-		-
2020		-		-		-
2021		-		-		-
2022		-		-		-
2023		-		-		-
Total		<u>\$ 26,000</u>		<u>\$ 92,000</u>		<u>\$ 75,000</u>

GENERAL OBLIGATION NOTES

Year Ending June 30,	Vehicle		2010 Street Improvement		Total
	Issued June 30, 2011		Issued February 28, 2013		
	Interest Rates	Amount	Interest Rates	Amount	
2014	3.00%	\$ 27,000	3.00%	\$ 13,000	\$ 65,000
2015	3.00	28,000	3.00	15,000	115,000
2016	3.00	28,000	3.00	16,000	104,000
2017	3.00	29,000	3.00	16,000	75,000
2018	3.00	28,000	3.00	16,000	50,000
2019		-	3.00	17,000	17,000
2020		-	3.00	18,000	18,000
2021		-	3.00	18,000	18,000
2022		-	3.00	19,000	19,000
2023		-	3.00	19,000	19,000
Total		\$ 140,000		\$ 167,000	\$500,000

See Accompanying Independent Auditor's Report.



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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL
OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

I have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in the Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of Buffalo Center, Iowa, as of and for the year ended June 30, 2013, and the related notes to financial statements, which collectively comprise the City's basic financial statements, and have issued my report thereon dated December 27, 2013. My report on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles expressed qualified opinions since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2012.

Internal Control Over Financial Reporting

In planning and performing my audit of the financial statements, I considered the City of Buffalo Center's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Buffalo Center's internal control. Accordingly, I do not express an opinion on the effectiveness of the City of Buffalo Center's internal control.

My consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, I identified deficiencies in internal control I consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Buffalo Center's financial statements will not be prevented or detected and corrected on a timely basis. I consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings as items (A), (C) and (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. I consider the deficiencies described in Part II of the accompanying Schedule of Findings as items (B), (E), (F) and (G) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Buffalo Center's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations and contracts, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters which are described in Part IV of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2013 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Buffalo Center's Responses to Findings

The City of Buffalo Center's responses to the findings identified in my audit are described in the accompanying Schedule of Findings. The City of Buffalo Center's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, I express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of my testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

I would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Buffalo Center during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Larry Pump". The signature is written in a cursive, flowing style.

Charles City, Iowa
December 27, 2013

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2013

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. I noted that one person has control over most of the accounting and banking functions.

Recommendation - I realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response - We will review procedures and make changes to improve internal control where possible.

Conclusion - Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- (B) Centralized Bookkeeping - The bookkeeping and custody of records for the Volunteer Fire Department funds are maintained by individuals outside the City Clerk's office. These transactions and the resulting balances are not recorded in the Clerk's records. Chapter 384.20 of the Code of Iowa states in part that "a city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose".

Recommendation - For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be recorded in the Clerk's records.

Response - We will look into this.

Conclusion - Response accepted.

- (C) Authorized Check Signer - It was noted that individuals who are listed on the Volunteer Fire Department signature card are not City employees or Council members.

Recommendation - All bank authorized signature cards should be reviewed and updates. Only current City employees or Council members should be authorized signers.

Response - We will review all signature cards and update them per guidelines recommended.

Conclusion - Response accepted.

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2013

Findings Related to the Financial Statements: - continued

- (D) Information Systems Controls - The City does not have a written disaster recovery plan. Also, adequate fire protection of computers and files does not exist.
- Recommendation - The City should implement the controls necessary to protect the processing of computer information.
- Response - We will do this.
- Conclusion - Response accepted.
- (E) Utility Billings - City ordinances establish garbage collection rates. I noted one customer was charged one half of the established garbage rate.
- Recommendation - All customers should be charged for garbage collection according to rates in the City Code.
- Response - We will investigate this and implement the necessary procedures to comply with the City Code.
- Conclusion - Response accepted.
- (F) Delinquent Accounts - I noted City officials and employees on the delinquent utility account listing.
- Recommendation - To eliminate a potential conflict of interest all City employees and officials should pay their utility bills in a timely manner.
- Response - We will investigate this.
- Conclusion - Response accepted.
- (G) Post-dated Checks - I noted several checks that cleared the City's bank account prior to the date the check was issued.
- Recommendation - The City should avoid the use of post-dating checks.
- Response - We will discontinue the use of post-dating checks in the future.
- Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget - Disbursements during the year ended June 30, 2013 exceeded the amounts budgeted in the public safety function. Chapter 384.20 of the Code of Iowa states, in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting: - continued

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted

- (2) Questionable Disbursements - I noted a certain disbursement I believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented. The disbursement is detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Hofbauer II Floral	Flower arrangements for memorials	\$ 89

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation - The Council should determine and document the public purpose served by this disbursement before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

Response - We will investigate this further.

Conclusion - Response accepted.

- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- (4) Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lyle Hippen, Spouse of Employee, Owner of Devries Lumber	Supplies	\$4,017

In accordance with Chapter 362.5 (3)(k) of the Code of Iowa, the transactions may represent a conflict of interest since total transactions were more than \$2,500 during the fiscal year.

Recommendation - The City should consult legal counsel to determine the disposition of this matter.

Response - We will do this.

Conclusion - Response accepted.

CITY OF BUFFALO CENTER, IOWA
Schedule of Findings
Year Ended June 30, 2013

Other Findings Related to Required Statutory Reporting: - continued

(5) Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

(6) Council Minutes - No transactions were found that I believe should have been approved in the Council minutes but were not.

During the year the City transferred funds to the Capital Projects, Street Project Fund from the General Fund and Special Revenue Fund, Local Option Sales Tax Fund. However, there was no formal approval of the transfers.

Recommendation - The City should formally approve the transfer of money from one fund to another.

Response - We will do this.

Conclusion - Response accepted.

(7) Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

(8) Financial Condition - The Special Revenue, Employee Benefits Fund had a deficit balance of \$2,278 at June 30, 2013.

Recommendation - The City should monitor this account and investigate alternatives to eliminate the deficit in order to return it to a sound financial condition.

Response - The account will be monitored in the future.

Conclusion - Response accepted.

(9) Mayor Salary - The mayor received an additional \$1,250 in payment during the fiscal year ended June 30, 2013 as an advance of his next year's pay. The mayor and City Council are paid annually in November.

Recommendation - The City should not allow salary payments in advance of wages being earned.

Response - The amount was corrected in the following year. We have discontinued issuing early payments.

Conclusion - Response accepted.